

RD AN. No. 4194 (1951-F)
June 26, 2006

TO: State Directors
Rural Development

ATTN: Community Programs Managers

FROM: Russell T. Davis (*Signed by David J. Villano*) for
Administrator
Housing and Community Facilities Programs

SUBJECT: Graduation of Community Facilities and Recreation Association Loans

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is being issued to remind State and Area Office staffs of the need to follow RD Instruction 1951-F very carefully and to fully document all actions regarding the review and refinancing of Community Facilities (CF) and Recreation Association (RA) loans.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4038 (1951-F) dated January 10, 2005, which expired January 31, 2006.

IMPLEMENTATION RESPONSIBILITIES:

1. To adequately evaluate each borrower for graduation, the Area Office must have detailed and current information regarding the interest of lenders in making loans within the region and State. RD Instruction 1942-A, section 1942.2(a)(2)(i), and RD Instruction 1951-F, section 1951.254(a)(2), require the State Director to maintain liaison with lenders in the State and develop criteria for determining which loans should be referred to lenders. The State Office should develop and maintain a list of interested lenders along with their lending criteria. This

EXPIRATION DATE:
June 30, 2007

FILING INSTRUCTIONS:
RD Instruction 1951-F

information should be provided to the Area Offices to use during graduation reviews. All contacts should be documented, and copies of the lender criteria developed by the State Office should be

forwarded to each Area Office. If Attachment 1 is not used, documentation should contain similar information. The worksheet should be completed by servicing staff based on the results of lender interviews. Area offices that contact local lenders should provide copies of completed lender contact worksheets to the State Office.

2. A graduation review report showing the list of borrowers for the initial screening can be obtained from the RHS link on the GLS website <https://gls.sc.egov.usda.gov/gls/default.asp>. After login, select the RHS link, then select Reports and click on Graduation Reports submenu to select RDPT033 Graduation Review report. Note that guaranteed and nonprogram loans are not subject to graduation.

3. The initial screening process is intended to eliminate those borrowers who clearly cannot graduate, from further review. RD Instruction 1951-F, section 1951.263(b), lists circumstances where a borrower can be eliminated from further review. Information to support eliminating borrowers that do not meet minimum lending criteria should be documented in the casefile; otherwise, a thorough review, including a careful review of current financial statements, must be conducted. If a borrower is eliminated from further review because they are unable to meet established minimum lending criteria, specific circumstances of the borrower and specific lending criteria that cannot be met must be documented as required by RD Instruction 1951-F, section 1951.263(b)(5). If Attachment 2 is not used, documentation should contain similar information.

4. Thorough reviews as provided in section 1951.263 (c) may be accomplished at the same time as the initial screening if current financial information is available in the file. If current financial information is not in the file, such information should immediately be requested from the borrower. Acceptable reviews cannot be completed without current financial information. When conducting thorough reviews, careful attention should be given to borrower investments and liquid assets, such as cash certificates of deposits, unrestricted accounts, and any restricted accounts controlled by the governing board. Funds earmarked for future facility improvements would not ordinarily be excluded from the review process unless the borrower is actively developing construction plans and seeking financing for the improvements. If Attachment 3 is not used, documentation should contain similar information.

5. Servicing officials should consider using trial referrals for those borrowers who may be able to graduate as provided in RD Instruction 1951-F, section 1951.263(d). If the trial referral is handled verbally, the results should be thoroughly documented.

6. All Community Programs servicing officials are reminded that CF and RA loans are to be reviewed for graduation with the borrower making a reasonable effort in applying to

other lending institutions for a loan at reasonable rates and terms as required by RD Instruction 1951-F, section 1951.253. Applications received after a borrower has been requested to graduate will be handled in accordance with RD Instruction 1951-F, section 1951.265(a).

This AN serves as a reminder of the importance of the graduation process. If you have questions regarding this AN, please contact Beth Jones, Senior Loan Specialist, Community Programs, (202) 720-1498, fax (202) 690-0471, or, e-mail: beth.jones@wdc.usda.gov.

Attachments

**Community Programs
Lender Contact Worksheet**
State: _____

Name of Lender:

Address:

Telephone:

Person Contacted: _____ Title:

Date of Contact:

Type of Lender:

___ Bank	___ Savings & Loan
___ Investment Bank	___ Bond Dealer
___ Insurance Company	___ Other (specify)

Areas of Interest:	<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>
New Loans	___	___	Water Systems	___	___
Refinancing	___	___	Waste Disposal	___	___
Joint Financing	___	___	Hospitals	___	___
Interim Financing	___	___	Nursing Homes	___	___
Guaranteed Loans	___	___	Clinics	___	___
Public Bodies	___	___	Fire & Rescue	___	___
Nonprofit Corporations	___	___	Municipal Bldg.	___	___
General Obligations	___	___	Schools	___	___
Revenue Bonds	___	___	Natural Gas	___	___
Special Assessment Bonds	___	___	Roads, Streets,	___	___
Note and Mortgage	___	___	Bridges	___	___
Other	___	___			

Comments: _____

Geographic Area of Interest:

Estimated Amount Available for Lending: \$

	Loan Size	
	<u>Minimum</u>	<u>Maximum</u>
Public Bodies	_____	_____
Nonprofit Corp.	_____	_____

Estimated Current Rates and Terms:

	Interest Rate		
	<u>Rated*</u>	<u>Unrated</u>	<u>Length of Loan</u>
Public Bodies			
Gen. Obligation Bonds	_____	_____	_____
Revenue Bonds	_____	_____	_____
Assessment Bonds	_____	_____	_____
Nonprofit Corp.	_____	_____	_____
Note and Mortgage	_____	_____	_____

*Ratings assigned by commercial bond-rating agencies.

Comments: _____

Is lender interested in trial referral of borrowers who may be able to refinance?

Yes ____ No ____

Lender's Reserve Requirements:

Lender's Preferred Ratio Range:

Debt Service Coverage

Debt Per Capita (GO Bonds)

Debt to Equity

Current Ratio

Other

Comments: _____

**Community Programs
Initial Review Worksheet**

Date of Review _____

Borrower Name _____

Type of Facility _____

Date of financial statement being used. _____

1. Information from Balance Sheet and Statement of Budget, Income and Equity

Total Current Assets _____ Total Current Liabilities _____

Total Long-Term Liabilities _____ Total Equity _____

Net Operating Income (Loss) _____ Interest _____

Depreciation _____ Principal Payment _____

2. Ratios:

Current Ratio (Total Current Assets ÷ Total Current Liabilities) _____

Debt to Equity Ratio (Total Long-Term Liabilities ÷ Total Equity) _____

Debt Service Coverage:

a. Annual gross revenue _____

b. Subtract Annual O&M expense (do not include interest and depreciation) - _____

c. Equals net from annual operations _____

d. Subtract Capital expenditures (to be made from annual operating income) - _____

e. Amount available for annual debt service _____

f. Divide amount available for annual debt service, (2e), by the annual debt service, (include P&I for all debt payments) ÷ _____

g. Equals *Debt Service Coverage* _____

3. **Payment Ability**

	Actual for	_____
a. Amount available for annual debt service (2e)		_____
b. Subtract amount to replace short-lived assets (part of Funded Depreciation on Balance Sheet)	-	_____
c. Equals net amount available for annual debt service		_____
d. Current Principal and Interest (P&I) expense		_____
e. Unpaid balance		_____
f. Add costs associated with refinancing (i.e., legal fees)	+	_____
g. Equals amount to be refinanced		_____

Proposed P&I expense when refinanced:

Estimated terms: Rate _____ Years _____

(To calculate proposed P&I expense when refinanced: multiply the amount to be refinanced, (3g), by the amortization factor for the estimated interest rate and term of the loan.)

h. Proposed P&I expense when refinanced _____

i. Compare 3c to 3h.

4. **Circumstances that may affect borrower's ability to graduate.**

a. Is the borrower developing architectural plans or actively seeking funding for a pending project that would impact the borrower's ability to refinance?

Yes _____ No _____

b. Does the borrower's audit report or financial statement contain any notes regarding financial problems or risks?

Yes _____ No _____

c. Is the outstanding loan balance too small to interest private sector financing?

Yes _____ No _____

5. **Initial Review indicates:**

_____ Thorough Review is needed.

_____ Borrower is unable to graduate at this time.

Reviewer's signature _____ **Date** _____

COMMUNITY PROGRAMS THOROUGH REVIEW WORKSHEET

1. Thorough Review

Date of Review _____

Type of Facility _____

Name of Borrower _____

Date of financial statement being used. _____

2. Information from Balance Sheet

Total Current Assets _____ Total Current Liabilities _____

Net Total Fixed Assets _____ Total Long-Term Liabilities _____

Total Assets _____ Total Liabilities _____

Total Equity/Net Worth (Total Assets minus Total Liabilities) _____

3. Long-Term Liabilities – including Current Portion

Creditor/ Loan No.	Unpaid Balance	Annual Debt Service	Rate, Years Left, & Security for Loan
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
TOTAL	\$ _____	\$ _____	

4. Income and Expense Information

	ACTUAL for _____	BUDGET for _____
a. Year's Gross Revenue (operating & non operating income)	\$_____	\$_____
b. Year's O&M Expense (do <u>not</u> include interest & depreciation)	-\$_____	-\$_____
c. Net from Operations	\$_____	\$_____
d. Agency Debt Service (principle & interest)	-\$_____	\$_____
e. Other Debt Service (principle & interest)	-\$_____	-\$_____
f. Capital Expenditures from Operating Income	-\$_____	-\$_____
g. Transfer to Reserve Account	-\$_____	-\$_____
h. Transfer to Funded Depreciation Acct.	- _____	\$_____
i. Balance Remaining	\$_____	\$_____

5. Working Capital

NOTE: The number of days for O&M expense and debt service will vary based on the type of entity and the size of the community. Use 60, 90, or 120 days based on the type of facility or size of the community. Examples of essential capital expenditures include but are not limited to: roof repairs, plumbing, or heating/air conditioning.

. Working Capital	\$ _____
(Total Current Assets minus Total Current Liabilities)	
<i>Deduct:</i>	
a. Restricted accounts	- _____
b. Reasonable O&M (____ days O&M expense)	- _____
c. Debt Service (____ days debt service)	- _____
d. Essential Capital Expenditures (from Funded Depreciation Account)	- _____
e. RD Reserve Account	- _____
f. Remaining Working Capital	\$ _____

6. Funds Needed to Refinance

- a. Total funds needed to refinance debts and to obtain lien position required by investment lender: \$ _____
- b. Add cost to obtain credit to refinance (i.e., legal fees, bank application fee, title update) +\$ _____
- c. Add credit for new capital expenditures +\$ _____
- d. Deduct remaining working capital (from 5f) -\$ _____
- e. Total amount needed for refinancing \$ _____
- f. Estimated rates and terms used by commercial lender(s):

Lending Institution	Years	Rate	Annual Debt Service
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

7. Payment Ability

- a. Net from operations (4c) \$ _____
- b. Add other dependable revenue +\$ _____
- c. Deduct capital expenditures -\$ _____
- d. Deduct total of annual debt service (from No. 3) for debts not being refinanced. -\$ _____
- e. Balance available to pay debt service \$ _____
- f. Annual debt service (from 6f) \$ _____
- g. Debt service coverage
(Balance available to pay debt service (7e), divided by
Total Debt Service (7f) _____

Compare balance available to pay debt service (7e) with annual debt service (7f) to determine if borrower can refinance.

8. Comments

9. Thorough Review indicates:

_____ Borrower will be requested to graduate.

_____ Borrower is unable to graduate at this time.

Reviewer's Signature

Date